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**OFFICE OF CURRENT INTELLIGENCE
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ANNEX--Conclusions of the Watch Report of the Intelligence
Advisory Committee

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1. 1958 SOVIET ECONOMIC PLAN AND BUDGET ANNOUNCED

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The speeches on 19 December to the Supreme Soviet by First Deputy Premier Iosef Kuzmin, chairman of the USSR State Planning Commission, on the 1958 economic plan, and by Finance

Minister Arseni Zverev on the state budget, as summarized by TASS indicate that the Soviet leaders continue to be pre-occupied with those problems which last year forced a reduction in the earlier planned rates of growth. Both reports emphasized measures intended to increase fuel, energy, and raw materials output, agricultural production, housing construction, and labor productivity. Explicit budget defense expenditures are planned at 96.3 billion rubles, virtually the same as the planned 1957 figure. Unstated defense expenditures included in other budget categories may have increased, however.

The TASS reports of the messages reflect the traditional Soviet concern with industrial growth--the priority development of heavy industry as the basis for "catching up with the US" in per capita industrial output and for insuring "the security of the state."

According to Kuzmin, the "main trends" of the 1958 economic plan are "determined by the goals of the seven-year plan (1959-1965), a draft of which is already being prepared." Industrial output is planned to increase during 1958 by 7.6 percent, only slightly above Pervukhin's modest 1957 planned increase of 7.1 percent. Kuzmin asserted the 1957 output increase was about 10 percent and attributed the overfulfillment to Khrushchev's reorganization of the management of industry and construction. Improved labor productivity is to account for the bulk of the 1958 output increase.

Soviet investments, necessary for future economic growth, are planned to increase by 7 percent during 1958, the same rate of increase planned for 1957. Actual investments, for 1957, however, were about 10 percent above the previous year's, Kuzmin stated.

Although no great changes in the level of budget revenues or expenditures are scheduled, the reorganization of

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industry has resulted in a planned increase in the share of total expenditures channeled through republic and local budgets from approximately one-third in 1957 to about half in 1958.

Expenditures for the national economy from both budget and enterprise funds (mostly profits retained by the plant) are planned to increase by 36.6 billion rubles, or roughly 10 percent over the 1957 plan. Of the increase in budget funds for the national economy, 85 percent will go to industry, reaffirming its high priority. Allocations to state agriculture will rise 6 percent over the planned 1957 level. Expenditures for health, education, and social welfare benefits will rise 13 percent, continuing the high rate of increase begun in 1956. Expenditures to finance scientific research establishments will increase 10 percent over 1957, reaching a total of 18.2 billion rubles in 1958.

Revenues lost by such recent concessions to the population as the abolition of the compulsory mass loan and a reduction in personal income taxes have been more than made up by the growth of the turnover tax, levied primarily on consumer goods, and the profits tax, levied on state enterprises.

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2. SOVIET PRESIDUM MEMBER ASSIGNED TO IMPORTANT GOVERNMENT POST

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Frol R. Kozlov, a full member of the Soviet party presidium and till now the Leningrad party boss, has been appointed chairman of the Council of Ministers of the Russian Republic (RSFSR), according

to a 19 December Moscow radio announcement. The decision to effect the change was presumably reached at the central committee plenum which met on 16 and 17 December. M. A. Yasnov, the previous incumbent, will serve as deputy to Kozlov.

Kozlov, a long-time party official, was raised to candidate membership in the party presidium in February 1957 and to full membership at last June's party plenum. His new appointment brings a top party man to one of the most important government positions in the USSR. It also brings another Khrushchev supporter from the provinces to Moscow in addition to the three appointments to the party secretariat announced on 18 December.

Appointment of a man of Kozlov's stature to leadership of the Council of Ministers of the most important republic of the USSR may reflect its large and vital role in overseeing and coordinating the activities of the 68 regional economic councils (sovnarkhozy) set up within its territory under the new industrial reorganization scheme.

Yasnov, unlike Kozlov, has made his career on the governmental rather than the party side. He worked for a number of years under Premier Bulganin and his demotion may signify a decline in the latter's influence.

As a result of the latest shift, the key post of party first secretary is now vacant in the Ukrainian and Uzbek Republics and in the Leningrad and Gorkiy Oblasts. Appointments to these important "steppingstone" positions will indicate how free a hand Khrushchev has in making such selections.

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3. SITUATION IN INDONESIA

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[redacted] both the army and moderate political groups, concerned over the steady drift toward political and economic chaos, are groping for means to promote their own power and influence after President Sukarno goes on "sick leave" early next month.

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The Indonesian parliament, with the Masjumi abstaining, on 18 December passed the dual nationality treaty which deals with the status of the Overseas Chinese and was negotiated with Communist China over two years ago. This action was probably prompted by Peiping's strong support of Indonesia's Irian claim. It may also foreshadow similar action on the long-pending Soviet aid agreement.

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[redacted] Workers' committees apparently are strongly entrenched in former Dutch firms. The "workers' committee" at Djakarta's principle travel agency, for instance, must approve all applications for plane and ship reservations.

The first major development in the anti-Dutch campaign outside Java has occurred in government-controlled

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North Sumatra, where three large Dutch companies have decided to abandon their interests and have instructed all personnel and their families, numbering 4,000, to leave Indonesia. Wholesale abandonment of Dutch holdings in East Java is also under way. [REDACTED]

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[REDACTED] the local military authorities have ordered all Western businessmen, including Americans, to give up 25 percent of their houses without compensation.

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[REDACTED]

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4. DUTCH VIEWS ON THE INDONESIAN SITUATION

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The three-week campaign against Dutch commercial interests in Indonesia has thus far failed to shake Dutch determination not to negotiate on New Guinea. The Netherlands is evidently committed in principle to a complete evacuation of all Dutch citizens from Indonesia if this becomes necessary. Hopes of salvaging any of the Dutch investments hinge on moderate elements' gaining control over either the Djakarta government or the outlying islands.

The Hague has not rule out the possibility of eventual bilateral negotiations, with or without third-party mediation, but insists that these must start with economic and financial relationships. The Indonesian government insists that the Dutch must relinquish New Guinea before it will even discuss compensation for seized assets.

Prime Minister Drees raised the Indonesian question at the NATO meeting and warned that financial losses might curtail Dutch defense expenditures. He did not press for specific NATO action but subsequently hinted that an appeal may be made to the UN.

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5. BONN OFFERS USSR TRADE AGREEMENT IN
EXCHANGE FOR REPATRIATION

Conclusion of a trade and repatriation agreement between West Germany and the USSR is expected soon after the talks reconvene in mid-January, ac-

cording to West German Ambassador to the USSR Lahr. In a draft proposal now being considered by the Soviet negotiators, the Germans appear to be prepared to accept most of Moscow's demands in exchange for an agreement for the return of German "treaty resettlers" in the USSR. The term "treaty resettlers" would apply to about 13,000 persons who were transferred from the Baltic area under a wartime agreement, and would cover only 10 percent of Bonn's original repatriation demands.

Bonn would accept Soviet demands for a three-year trade agreement providing for total trade of \$936,000,000, an increase over the present \$200,000,000 annual rate. As an annex to the trade and payments agreement, Bonn may sign a treaty of commerce and navigation, including a most-favored-nation clause. The West Germans had hoped to avoid a long-term agreement and a full-scale commerce and navigation treaty.

Bonn would also accept the Soviet proposal for a broad consular agreement providing in principle for the opening of consulates. Bonn, however, would require further negotiation in each case. The West Germans originally advocated consular functions only for the embassies.

The Foreign Ministry is considering separate talks with the USSR in Bonn on the subject of a liberalized cultural exchange program. Such talks were suggested by Premier Bulganin, but Bonn has refused to include them in the present trade and repatriation negotiations.

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8. ANTI-COMMUNIST POSITION STRENGTHENED
IN GUATEMALA



The anti-Communist position in Guatemala was strengthened on 16 December by the decision of the Christian Democratic party to join the centrist coalition backing Lt. Col. Jose Luis Cruz Salazar for the presidency in the 19 January elections. Other small parties, heretofore undecided, are jumping on the Cruz bandwagon. Cruz' chief rival for their support, Col. Enrique Peralta, has withdrawn from the race.

Strongest member of the coalition is the National Democratic Movement, the party of the late President Castillo Armas, which apparently still retains effectively organized vote-getting power in rural areas. Cruz, who has been ambassador in Washington for the past three years, is not well known to the general public and is dependent on this organization. He will be opposed by the rightist General Ydigoras and by Mario Mendez Montenegro, candidate of the Communist-infiltrated Revolutionary party.

The election will be close, and none of the three may receive the required absolute majority. In such an event, the constitution requires congress to decide between the two highest candidates. The congress is heavily weighted with adherents of the center parties who could be expected to support Cruz.



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**9. PREPARATIONS FOR TRIAL OF NAGY MAY BE
UNDER WAY IN HUNGARY**

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The Hungarian government appears to be setting the stage for the trial of former Premier Nagy and other high-level revolutionary leaders.

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friends of Istvan Bibó, a close associate of Nagy in the revolutionary government who was arrested this spring, are undergoing questioning.

A wave of trials of armed participants in the revolution is now in full swing. Included are workers from Csepel Island--the last stronghold of the revolution--the former secretary of Cardinal Mindszenty, and 16 young seminarians or priests. In at least one of these trials, it was charged that the defendants "followed the orders of Imre Nagy and General Maleter."

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10. CEYLONESE PRIME MINISTER WEATHERS NO-CONFIDENCE VOTE

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Ceylonese Prime Minister Bandaranaike on 19 December demonstrated his continued firm control of the government when the lower house of parliament rejected a no-confidence motion by 54 to 23.

The no-confidence motion, based on the government's recent dissolution of the Colombo municipal council for "incompetence," was made by N. M. Perera, leader of the opposition and of the Trotskyite Nava Lanka Sama Samaja party. The motion was supported by the Federal party, which is composed of Ceylonese Tamils of Indian descent, and by the United National party, which held a majority in the municipal council.

Perera, whose labor unions were mainly responsible for the series of strikes which paralyzed Colombo in late November and early December, may have hoped to turn the no-confidence vote into a further display of his strength. If so, he failed. Some 14 out of 40 opposition members abstained or were absent, while the three Communists in the opposition supported the government. Bandaranaike normally controls approximately 58 seats in the 98-man house.

The vote demonstrates the difficulty still faced by any group which hopes to oust Bandaranaike by parliamentary means.

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ANNEX

Watch Report 385, 19 December 1957
of the
Intelligence Advisory Committee

Conclusions on Indications of Hostilities

On the basis of findings by its Watch Committee, the Intelligence Advisory Committee concludes that:

- A. No Sino-Soviet bloc country intends to initiate hostilities against the continental US or its possessions in the immediate future.
- B. No Sino-Soviet bloc country intends to initiate hostilities against US forces abroad, US allies or areas peripheral to the orbit in the immediate future.
- C.
 - 1. A deliberate initiation of hostilities in the Middle East is unlikely in the immediate future. However, tensions in the Middle East continue to create possibilities for serious incidents.
 - 2. There is no evidence of Sino-Soviet intention to become militarily involved in the Indonesian situation. However, the Communists are exploiting political instability, growing economic chaos, and prospective food shortages. Developing conditions continue to provide opportunities for a Communist take-over of government on Java.

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